Extending internalization theory: integrating international business strategy with international management

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Extending internalization theory: Integrating international business strategy with international management

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Abstract

Research summary: International business strategy and international management are two distinct but related fields of study. This article explores the connections between them. It shows how internalization theory can act as a bridge between them. The key is to analyze not only core activities, such as production, marketing and R&D, but support services such as human resource management, information technology, and corporate finance. Internalization decisions and location decisions must be analyzed holistically, and diagrammatic techniques show how this can be done. These diagrams reveal the networks of communication and the hierarchical structures that emerge from such decisions.

Managerial summary: The organizational structure of a multinational enterprise is inherently complex, making it difficult to determine whether one organizational structure is more efficient than another. Delayering, decentralization, and agility are recommended, but what are their practical implications? Internalization theory addresses these problems in a simple and coherent way. It shows that it is not only core activities, namely production, marketing and R&D, that need to be coordinated, but support services too. Decisions on

the location and out-sourcing of support services must be aligned with similar decisions on core activities. A diagrammatic analysis is presented that facilitates the solution of these problems.

KEYWORDS

business strategy, intermediation, internalization, international management, multinational enterprise, network

1 | INTRODUCTION

This article attempts to "bridge the gap" between international business strategy and international management. Both obviously involve an international dimension. However, international business strategy is mainly concerned with the external environment of the multinational firm (MNE), and the analysis of global innovation, international oligopolistic rivalry and foreign market entry strategies, while international management is mainly concerned with the internal organization of the MNE and in particular with coordination within and between key functional areas such as human resource management (HRM), finance, and information technology (IT) services.

There is a methodological difference between these two areas. International business strategy derives many of its concepts from economics, game theory, and competitive strategy, while international management relies more on sociology, organizational behavior and psychology (Buckley & Casson, 2019). This difference seems to have widened over time, with research articles in each area citing very different strands of literature.

There is obviously an overlap between these areas, however. Strategy is partly a product of organizational structure, while organizational structure will adapt to serve strategic objectives. This article is dedicated to exploring this overlap between the two.

Internalization theory is a key component of international business strategy, and so this article proposes to explore this overlap by applying internalization theory to international management. These two strands are obviously linked, because the word "internalization" indicates an interest in the internal operations of firms. Indeed, managers cannot logically optimize the boundaries of a firm without comparing an externalization strategy with the best available internalization strategy. To identify the best internalization strategy they need to evaluate all possible internalization strategies, which places the problem firmly within the IM domain (Madhok, 1997, 2002).

Sections 2–4 summarize the application of internalization theory to international business strategy, while the remainder of the article explores its application to international management. Section 2 presents a brief intellectual history of internalization theory. Section 3 expounds relevant aspects of mainstream international business strategy, focusing on three major factors governing the profitability of the MNE. Section 4 discusses the internal configuration of activities within the MNE, focusing on the coordination of production, distribution, and R&D in an innovative MNE.

Section 5 presents the main analysis of internal structure. It distinguishes between core activities, such as those described above, and support activities. Support activities are supplied both to individual plants and to the firm as a whole; they include not only HRM, finance, and

IT services, but also facilities management, local procurement, and so on. This section presents a diagrammatic and tabular technique for applying internalization theory to the internal structure of an MNE. Section 6 examines psychological issues in management from an internalization theory perspective. It discusses how ordinary employees view the internal structure of the firm, and how this can affect their productivity. Section 7 reviews the internal structures of various alternatives to the conventional MNE, including cartels, investment trusts, joint ventures and "flagship firms." The conclusions are summarized in Section 8.

2 | THE APPLICATION OF INTERNALIZATION THEORY TO MANAGEMENT STRUCTURE

2.1 | Origins of internalization theory

Most internalization theorists have focused on the question of why firms internalize, and the conditions under which they do so, rather than the specific methods of internalization that they use. Internalization signifies the coordination of resource utilization by planning within a single organization rather than by negotiation in open markets between independent organizations. It can be applied at several different levels, including the factory, the firm, and the state (Dobb, 1955; von Hayek, 1945; Lange & Taylor, 1938; Robertson, 1923).

Ronald Coase (1937) applied the concept to the firm. He argued that in a competitive market economy firms would emerge naturally whenever it was profitable to plan the work of a team; otherwise, workers would work for themselves (Casson, 2014). Buckley and Casson (1976) applied similar reasoning to the MNE. The MNE, they argued, was just a special type of multi-plant firm. In effect, they took Coase's scheme, replaced the "worker" with a plant, distributed the plants in space, introduced national borders, and thereby turned the firm into an MNE.

But why bring different plants under common ownership and control? If the plants are unrelated then the economic case is weak. But suppose that they are connected by intermediate product flows. The managers of connected plants could negotiate long-term contingent contracts, but these would be very complex (Arrow, 1975). With insufficient flexibility they could get "locked in" to irreversible commitments that they later regretted (Williamson, 1975, 1985). Negotiations could be protracted and they might be unable to agree on terms. More fundamentally, they simply might not trust each other (Casson, 1997). To ensure full compliance with the contract they would need to supervise each other closely.

2.2 | Recent research

Several scholars have already explored the managerial implications of internalization theory. Buckley and Hashai (2014), for example, emphasize that the knowledge-intensity of the firm will impact on its organizational structure. Taking a somewhat different perspective, Tomassen and Benito (2009) and Benito and Tomassen (2010) have examined the implications of governance costs for the exploitation of technology in a knowledge-intensive firm. Despite these seminal contributions, however, internalization theory offers relatively few predictions about the internal structure of the firm and the specific methods of internal coordination that are employed.

By contrast, IM scholars, including some business gurus, have routinely engaged with internal coordination issues (e.g., Bartlett & Ghoshal, 1998). They are often prescriptive rather than analytic, however; they make a stark distinction between the way a firm is organized at present and the way that it needs to be organized in future. This future organization could, in theory, be equated with the optimal structure identified by internalization theory, but in practice it is not. Although IM scholars have recognized the potential relevance of internalization theory, in practice they have made little use of it.

A natural objection to this proposed integration is that internalization theory is based on a theory of rational choice and that this approach is not appropriate to IM. It should be emphasized, however that internalization theory does not assume perfect information; on the contrary, it analyses rational responses to problems created by imperfect information.

It does, however, emphasize that most large firms regularly review their managers' performance, giving managers a strong incentive to act rationally in the view of their superiors. Likewise, workers whose effort is closely monitored and who wish to retain their job or get promoted will seek to appear industrious so far as their supervisors are concerned.

Performance measurement has its limitations, however. Internalization theory recognizes that while the internalization of an activity can reduce incentive problems it does not eliminate them altogether. For example, a contract of employment can never fully reconcile the corporate objectives of the employer with the personal objectives of each employee. An "enlightened" employer will therefore seek to understand and appreciate the personal objectives of their employees, and to accommodate them as far as possible. The optimization of internal structure, therefore, requires more than narrow economic calculation; an appreciation of individual psychology and work-group culture is also required.

2.3 | The division of labor within the firm

Most MNEs employ a functional division of labor within the firm (Smith, 1776). To generate goods and services a production team is required. To deliver finished product to consumers a distribution system is required. To develop new products and improve existing products R&D activity is required. Management must coordinate these functions and also coordinate within each function too.

Each function is normally carried out in different plants. Some functions may comprise multiple activities, embedded within horizontal, vertical, or pyramid structures. Each activity may be concentrated at a single location or replicated at multiple locations (Buckley & Strange, 2015). Each activity typically requires a team of workers with a distinctive set of skills. Different plants may be connected by flows of tangible or intangible intermediate products (e.g., semi-processed raw materials, technological know-how).

The role of management is to coordinate the relations between the functional areas, and within each functional area to coordinate the activities of plants at different locations. Finally, within each plant it is management's responsibility to coordinate the actions of individual workers. International business strategy typically focuses on the coordination of different functions and international management on the coordination of individual workers. In between lies the coordination of the same function at different locations; this is one of the key interfaces between international business strategy and international management that is explored in this article.

It is not only productive activities that need to be coordinated, however, but the management of these activities too. Managers represent the interests of the shareholders; they scan the business environment, plan the allocation of resources, and give instructions to workers. Management can also be functionally specialized and spatially distributed (Dunning, 1958). Individual managers can specialize in different aspects of coordination, for example, coordinating research and production, or coordinating production and sales. This creates a division of labor in the management of the firm. People with different aptitudes specialize in different management roles. Some management roles may benefit from co-location, and may be centrally located at headquarters. Other roles may dispersed to specific locations where key skills are available. Coordination is largely an office-based activity, and the logic of office location is somewhat different to that of plant location. For example, with good communications a regional network of plants can be coordinated from a remote centralized headquarters. This raises the interesting possibility that a firm could be multinational by virtue of the location of its offices rather than the location of its plants, and this is explored further below.

2.4 | Formalizing the role of management in the theory of international business strategy

In international business strategy theory the concept of internalization is used to analyze relations between firms, their customers and their workers. But workers are not the only employees; managers are employees too. Just as workers work in teams and need to be managed, so managers also work in teams and need to be managed as well. The management of managers by other managers creates a hierarchy within the firm (Williamson, 1996). Furthermore managers are accountable to shareholders. In small firms, the senior manager may also be the owner, and the sole shareholder in the firm. But in a large MNE senior management is accountable to numerous external shareholders. To integrate international business strategy and international management perspectives, therefore, it is necessary to introduce shareholders and managers as well as customers and workers into the analysis of the firm (Foss & Foss, 2005; Hennart, 1991).

3 | THE PERFORMANCE OF MNEs

This section addresses an important issue in international business strategy, namely the performance of firms (as measured, e.g., by profitability; Dunning & Lundan, 2008). Internalization decisions are crucial for firm performance, but a full explanation of variations in firm performance requires other factors to be taken into account (Hashai, 2009). This section reviews three important factors, namely market power, economies of scale, and network economies.

3.1 | Market power

The theory of international business strategy suggests that the main factor that influences the relative performance of firms within the same industry is their market power. Market power is usually discussed under the rubric of "ownership advantage" or "firm-specific advantage." These two concepts are not quite the same, however. Firm-specific advantage focuses on

advantages that are unique to the individual firm. Ownership advantage, by contrast, includes advantages that are not specific to the firm; Kindleberger (1969) argued, for example, that US MNEs derived an advantage from access to the New York stock exchange, where investors took an optimistic view of risk. In the context of internalization theory it is firm-specific advantage that is most relevant (Verbeke, 2013).

It has been argued that the global reach of MNEs gives them greater power in the labor market, but this is a more dubious proposition. Labor is normally recruited to local plants from local labor markets. The foreign operations of the firm are mainly relevant when the firm can threaten to switch production to low-wage countries if domestic labor bargains too aggressively over wages.

It is also possible that specific skills in recruiting talented managers enhance the profitability of the firm, particularly in respect of technology transfer capabilities (Martin & Salomon, 2003).

3.2 | Economies of scale

Economies of scale are an important barrier to entry. There is a crucial difference, however, between economies of scale at the plant level and economies of scale at the firm level. Economies of scale at the plant level encourage the concentration of production at a small number of plants. This may encourage exports and discourage FDI unless, of course, the plant is located overseas.

By contrast, economies of scale at the firm level directly encourage large firms. One important scale economy has already been discussed: namely superior knowledge relating to innovative products. The same principle can also be applied to knowledge that is used, not directly to produce a marketable product, but to generate internal services that support production and distribution within the firm.

Many internal services are highly specialized; thus in order to maintain a specialist fully employed a large demand for the service is required. It may be difficult to contract out the service because of quality assurance or confidentiality issues; conversely, it may be difficult to sell surplus services to other firms for similar reasons. To exploit these services fully, therefore, it may be necessary to increase internal demand for these services by increasing the scale of the firm.

Provided internal services can be remotely supplied, service provision can be centralized within the firm, for example, at headquarters. Remote service provision can also be decentralized, however. Routine data services, for example, can be off-shored to locations where office workers can be recruited cheaply. This raises an important point: namely that a firm can not only off-shore conventional production activities that generate product for sale (as noted above), but can off-shore support services too. Thus to become an MNE does not have to produce or distribute for sale in a foreign country, because it can produce there for internal use instead.

3.3 | Network economies and the network MNE

Network economies are a distinctive manifestation of economies of scale. There are three main types: *collection networks* that connect suppliers to a central plant or warehouse; *distribution*

networks that connect a central plant or warehouse to a diffuse set of customers; and *communications networks* that connect customers to each other. In the first two cases, a central facility is key to the value of the service, while in the third case it is merely incidental in facilitating connectivity. The first two cases have been discussed frequently in the IB literature: the collection network features in supply chain analysis, and the distribution network in marketing. The third case is mainly discussed in modern literature on digital platforms, where the central facility processes user instructions and connects up the appropriate participants (Autio, Mudambi, & Yoo, 2021; Stallkamp & Schotter, 2021).

In each case, competition normally selects the largest network. Spreading the fixed costs of the central facility is crucial. Other things being equal, the largest network will have the lowest average costs and will therefore be able to offer the lowest prices. As consumers switch to the larger network its average costs fall further, and as they desert the smaller networks their average costs rise, and so the larger network eventually takes over the entire market.

A notable feature of these networks is first mover advantage. Even if the first mover is a higher cost producer than the later networks, it may have established such a large customer base by the time a second mover enters that the second mover will have to price at a massive loss until its market share has overtaken the leader's market share; the second mover therefore requires very deep pockets if it to finance its later entry.

The power of the first mover is particularly great where a communications network is concerned. Increasing the size of the network not only reduces the average cost of the central facilities, but also directly enhances the value of the network to the users. Competition on communications networks therefore leads directly to monopoly, rather than to oligopoly as in the other cases. Until recently communications networks were normally owned and operated on a national basis, and national monopolies were either highly regulated or fully nationalized. International communications were facilitated by cooperative agreements between national networks who shared the revenue from each call between the originating and the destination countries. The internet has changed this dramatically, however, allowing the development of corporate-controlled global platforms that increasingly monopolize specific types of communication.

4 | MODELING THE MULTINATIONAL ENTERPRISE

4.1 | Diagrammatic analysis

The remainder of this article focuses on the internal structure of a fully internalized firm. The analysis can be extended to a network of firms, comprising a lead firm and its licensees, subcontractors, and franchisees, but that is beyond the scope of this article. The specific focus is on a multi-plant firm, such as a multi-domestic firms of the kind assumed in most expositions of basic internalization theory.

There are many ways in which plants can be connected within a multi-plant firm. One plant may supply intermediate product to another ("vertical integration"), or both plants may depend on a third plant for access to a shared resource, in order to carry out the same activity ("horizontal integration").

Horizontal and vertical integration may be combined, as illustrated in Figure 1. The figure presents a stylized picture of a typical "market-seeking MNE." The firm owns and controls an R&D facility which generates a technology that is shared by two production plants. These plants

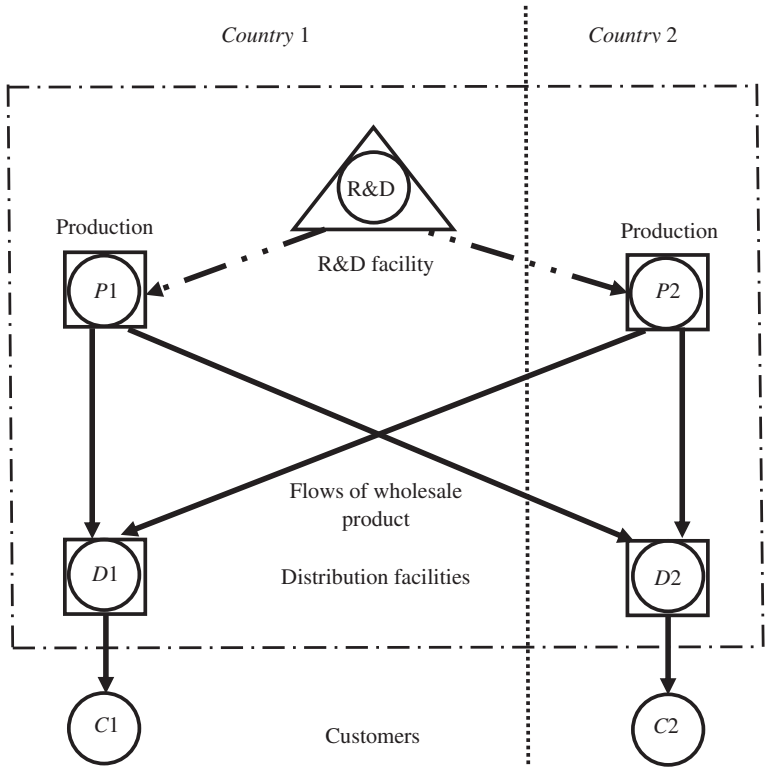

FIGURE 1 Schematic representation of MNE structure showing the flow of product and technology. *Square box*: production or distribution facility; *Triangle*: R&D facility; *Circle*: representative individual decision-maker; *Thick black lines*: flow of product or service that is ultimately sold to customers (including intra-firm exports); *Thick black dash double-dot lines*: flow of knowledge (shared as a "public good" between production facilities); Dash-dot black line: ownership boundary of the firm. *C*, customer; *D*, distribution; *P*, production; *R&D*, R&D facility

supply the firm's customers through local distribution facilities. One facility is based in the home (country 1) and the other abroad (country 2). If there is an imbalance between production capacity and consumer demand in each country then intra-firm exports may take place, as illustrated by the diagonal lines in the figure.

So far as location is concerned, theory suggests that upstream activities are pulled toward resources (labor, raw materials) and downstream activities toward final customers, and that R&D is pulled toward university towns and research hubs. These forces are countered, to some extent, by transport costs and the costs of long-distance communication, which tend to push these activities together. Headquarters is typically pulled toward the "center of gravity" of these operations (however, that is defined; Adler & Hashai, 2007).

Five interesting special cases can be identified from the figure; these are a subset of a larger set of all the possible cases that can emerge.

1. *The firm supplies only the home country* 1, *but off-shores production to the foreign country*. Production may be based in country 2 because key resources are located there; this is often described as "resource-seeking" FDI.

2. *The firm produces only in country* 1, *but owns a distribution facility in country* 2. The firm exports to country 2 but also has a "sales subsidiary" there. This situation is rarely discussed; it is notable because exports and FDI are complements, and not substitutes, as is often assumed in simple accounts of foreign market entry.
3. *The firm produces and sells only in country* 2. It undertakes no R&D, so all its other operations are conducted overseas. It is described in the literature as a "free standing firm." There are plenty of historical examples; for example, 19th century British railway companies with head offices in London that operated railways in Latin America (Rippy, 1959).
4. *The firm subcontracts production in both countries*. Subcontracting is widely discussed in the context of value chains (Buckley & Strange, 2015; Gereffi, Humphrey, & Sturgeon, 2005) but it is often misunderstood. The firm continues to own the technology which is used in production and also owns the distribution facility to which the product is supplied. The subcontractor is normally offered a fixed fee for their services (i.e., use of their labor and factory equipment) but the firm retains the ownership of the work-in-progress which embodies its technology. The firm does not sell its patent rights to the subcontractor and then buy back the product, as this would expose it to unacceptable risks. The firm continues to own a foreign sales subsidiary and so it remains an MNE.
5. *Every activity*, *including* R&D, *is subcontracted to a different firm*. This radical strategy creates a so-called "hollow firm," or "flagship firm" (Parmigiani & Mitchell, 2010; Rugman & D'Cruz, 2000). The firm owns the technology, the product, and the work-in-progress, but owns no plants and employs no labor. It employs only managers; these managers replace the markets that would otherwise link the independent firms. In this context, the role of management is often described as "orchestration." The independent firms consent to this arrangement because their rewards are fixed; they agree a rate for the job and so the commercial risks are born entirely by the hollow firm.

4.2 | Defining the MNE

A question that arises naturally when discussing these examples is "Is this firm really an MNE?." This question is particularly relevant to the free-standing firm and the hollow firm. Internalization theory applies both inside and outside international business studies; the question is not important for internalization theory, therefore, but nonetheless it is crucial for defining the boundaries of international business studies. It can only be answered by reference to a definition of an MNE. An MNE is often defined as a firm that owns and controls productive activities in more than one country. But what is meant by "ownership," "control," and "productive activity"?

4.2.1 | Ownership

Most firms do not own machinery, equipment, and buildings outright; they usually rent or lease them for a short period. A firm that "owns" a factory in a foreign country may simply be leasing it for a number of years. What the firm owns is the local subsidiary company. It is the ownership of the subsidiary, rather than the subsidiary's ownership of assets, that legally makes the firm an MNE. A subsidiary is, however, likely to own outright the inventory and work-in-progress stored in its plants. Foreign ownership may therefore be construed as the ownership

by a foreign subsidiary of leases on buildings and equipment, and of stocks and work in progress on the factory floor.

4.2.2 | Control

Control allows a firm to allocate resources between alternative uses without consulting other parties. A contract of employment, for example, allows a firm to allocate a worker's time between a limited number of specific tasks. But if the firm employs a subcontractor it cannot do this; it can, however, allocate productive activities between subcontractors. Foreign control therefore includes control, not only of activities within a plant, but also of the movement of intermediate product between plants. This implies that hollow firms with international operations are indeed MNEs. They own the work in progress and control the allocation of work between their subcontractors.

4.2.3 | Productive activity

A key question is whether the management of operations is a productive activity exactly like the activities that it manages (e.g., production, distribution and R&D). Most firms not only produce goods and services that they sell, but also produce services that they use themselves. International business strategy focuses on core activities that contribute directly to saleable output. Consistency suggests that because management supplies an internal coordinating service that contributes to final output, it should be regarded as productive too. So too should internal services that support management functions, for example, HRM and finance. This has important implications for both international business strategy and international management. In the context of free-standing firms, for example, it implies that they are indeed MNEs, because headquarters supplies internal services that are exported overseas. More fundamentally, it also implies that a firm may be an MNE simply because a foreign subsidiary supplies internal support services to its domestic activities. This scenario is considered further below.

5 | INTERNAL COORDINATION

5.1 | The management of the MNE

International management theory developed well before the internalization theory of the MNE. Researchers at Harvard Business School led the development of case studies of US MNEs in the early post-war period (Barlow, 1953). Shortly afterward a series of influential texts were published for use in management education (Brooke & Remmers, 1970; Stopford & Wells, 1972). Since then the literature has mushroomed, although the basic approach has remained largely unchanged.

From the outset international management was more practitioner-oriented than international business strategy. A common theme has always been the need for flexible organizations and continuous change, driven by charismatic leaders and implemented by empowered employees. Academic "gurus" have called for transformational changes to embrace new organizational structures (Bartlett & Ghoshal, 1998; Forsgren, Holm, & Johanson, 2005;

Hamel & Prahalad, 1992; Kanter, 1989; Mintzberg, 1978; Norhia & Ghoshal, 1997; Peters, 1988). In the context of international business, the emphasis has been on the advantages of subsidiary autonomy and internal entrepreneurship (Birkinshaw, 1997). Empirical studies, however, have not always confirmed the view that traditional management structures are inefficient, or that visionary changes always work well.

Despite international management's early lead as a field of study, however, no management equivalent of internalization theory has emerged. The most systematic treatment of decision-making structures in the MNE remains Egelhoff (1988) and Leiblein (2003). The closest analogue to internalization theory in international management is the "network" approach to organizational structure (Ghauri, 1992; Hedlund, 1986; Pearce & Papanastassiou, 1996). This approach is similar in some respects to the network approach illustrated in Figure 1 above. The main difference is that Figure 1 relates to flows of intermediate products within a firm, whereas an international management network relates to authority relations and flows of information within the firm. Synthesizing these two networks can, however, provide an integrated approach to the internal structure of the MNE that spans both international management and international business strategy.

To fully implement this synthesis, a two-stage process is required. The first stage identifies all the possible configurations of internal structure that are available and the second selects the best. This generates predictions about how rational managers will adapt the internal structure of the MNE to reflect the structure of its operations.

This section outlines this approach with the aid of diagrams. It demonstrates that although the number of possible internal configurations is very large, even in a small MNE, it is possible to eliminate many of the possibilities as demonstrably inefficient and reduce the final choice to a small set of candidates. It also shows that the final choice hinges on key trade-offs, such as that between a lean flat structure with a high degree of ambiguity and a tall hierarchical structure with very clear lines of authority. The optimal solution depends on the nature of the operations and the way they are connected, which in turn reflect the fundamental factors identified in international business studies, that is, technology, location and market power. There is, therefore, no "right answer" to questions about internal structure that applies to every firm or industry.

5.2 | Intermediation: Managing linkages within the firm

The key to this exercise is to examine how a network of information flow coordinates a network of intermediate product flow within a firm. Early writers on internalization, cited above, employed a binary distinction between two main types of management organization. The first was a centralized approach involving military-style command and control, which concentrated decision-making on a small elite, and the second was a decentralized approach in which the managers of separate plants negotiated with each other over internal transfer prices (sometimes referred to as a "shadow prices" or "accounting prices"; Spicer, 1988; Spicer & Ballew, 1983).

Both these systems create administrative difficulties (Benito & Tomassen, 2010; Tomassen, Benito, & Lunnan, 2012). Centralization involves a significant loss of detailed information through aggregation, while price negotiation in a decentralized system can be time-consuming and adversarial. The international business strategy literature has debated extensively the role of transfer prices, while the international management literature has focused mainly on

alternative structures of authority. The links between these literatures have been explored by Colbert and Spicer (1995), Shelanski (2004), and others.

A compromise between centralization and decentralization is intermediation (Casson, 1997). Applying the principle of intermediation suggests a three-tier management structure. (1) Top-level decisions are taken by a chief executive (CEO) who consults with their senior managers in order to achieve consistency across the firm. The CEO takes key decisions about investments in specific assets and other decisions that lock the firm into its long-term strategy. (2) Each senior manager oversees the linkages between a key set of related activities within a specific strategic area (e.g., technology, human resources [HR]). They collect information from the local managers of relevant plants and organize supplies of internal services from one part of the organization to another. (3) Each local manager collects local information to optimize the performance of their own activities.

Where transfer pricing is used to coordinate internal flows, the prices may be imposed by senior managers or negotiated between the managers of individual plants, with senior managers maintaining general oversight (Colbert & Spicer, 1995). In the following discussion it is assumed, for simplicity, that firms adopt transfer pricing whenever it facilitates tax avoidance; the prices are set by senior managers, and quantity decisions are taken by local managers in response to these prices.

Imposing this structure on the diagrammatic analysis significantly reduces the number of potential configurations that need to be evaluated. Figure 2 illustrates the approach in the case of the configuration of activities presented in Figure 1. Each plant is managed by a local manager who is indicated by a circle placed inside a triangle or square. The linkages between plants could in principle be coordinated by direct negotiation between the managers of the plants concerned but this would be problematic, as explained above. It would mean, for example, that while the manager of plant $P1$ was negotiating with the managers of the distribution plants $D1$, $D2$, these managers would also be negotiating with its internal "rival" $P2$.

This problem is addressed by introducing senior managers as authority figures. The global production manager GP intermediates between the plant managers $P1$ and $P2$, while the global distribution manager GD intermediates between the distribution managers $D1$ and $D2$. In addition a home-country subsidiary manager intermediates between $P1$ and $D1$, while a foreign subsidiary manager $S2$ intermediates between $P2$ and $D2$.

Resolving the negotiation problem in this way creates another problem, however: communication between $P1$ and $D2$, and between $P2$ and $D1$ is indirect. To address this issue, communication is mediated at board level by discussions between the global production director GP and the global distribution director GD; or alternatively between the national subsidiary managers $S1$, $S2$.

Relations between R&D and production are mediated by the global research director, GR, who engages with the global production director GP at board level. The board is presided over by the CEO, based at the headquarters, H, who controls the firm as a whole. Board members have an opportunity to pool their information at meetings of the board, but this process is mediated by the CEO.

The key to the figure explains the conventions used; in particular, the thin black lines that have been introduced into the figure indicate two-way communications, and the position of their arrows indicates the direction of authority.

Although the figure is complex, it is the simplest representation that illustrates all the key points. This figure, together with the two subsequent figures, represent a "blueprint" of the organizational structure of an MNE. It is the least complex of all the possible figures that could be used to illustrate this structure. In practice, the organizational structures of large MNEs are

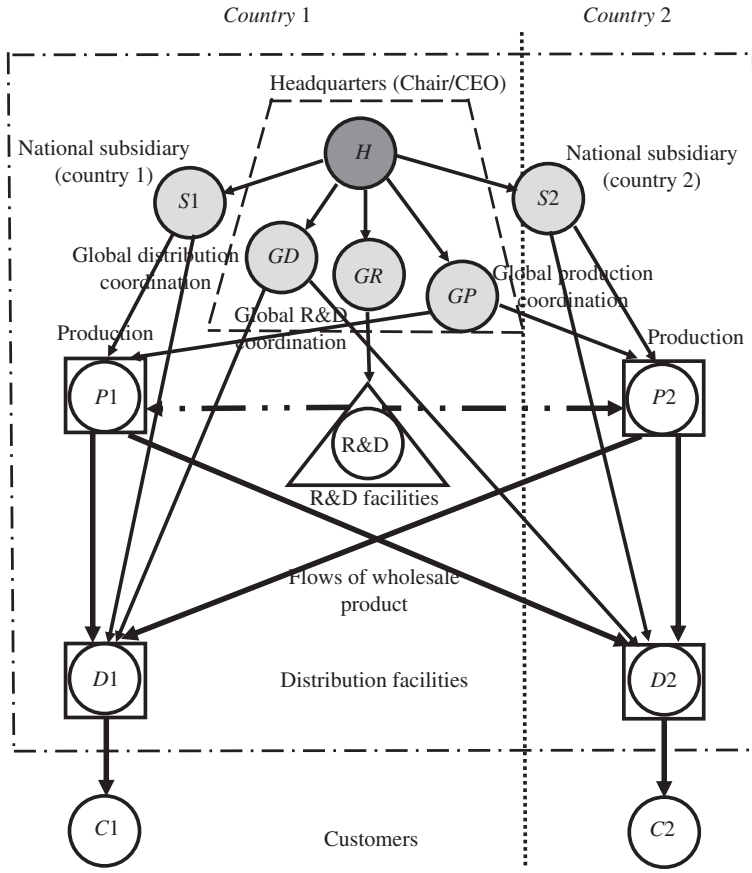

FIGURE 2 Schematic representation of MNE structure showing the flow of coordinating information. *Square box*: production or distribution facility; *Triangle*: R&D facility; *Circle*: representative individual decision-maker. *Color of circle*: *dark gray*: highest-ranked decision-maker H (chairperson/CEO); light-gray: second-rank decision-maker (global coordinator, chief financial officer and subsidiary managers in countries 1 and 2); white: lowest-ranked decision-maker (facilities managers). Thick black lines: flow of product or service that is ultimately sold to customers (including intra-firm exports). Thick black dash double-dot lines: flow of knowledge (shared as a "public good" between production facilities). Thin black continuous lines: flow of coordinating services; the direction of the arrow indicates the line of authority. Dashed black line: boundary of headquarters location (indicating co-located staff). Dash-dot black line: ownership boundary of the firm. *C*, customer; *D*, distribution; *GD*, global distribution coordination; *GP*, global production coordination; *GR*, global R&D strategy-making; *H*, global headquarters; *P*, production; *R&D*, management of R&D facilities

normally so complex that neither ordinary employees nor external auditors can fully comprehend them. These diagrams are comprehensible to the reader only because simplifying assumptions, based on the underlying theory, have been made in order to construct them.

5.3 | The role of financial services

The coordination described in Figure 2 relates exclusively to the core activities of production distribution and R&D. Figure 3 extends the analysis to consider the role of finance. The

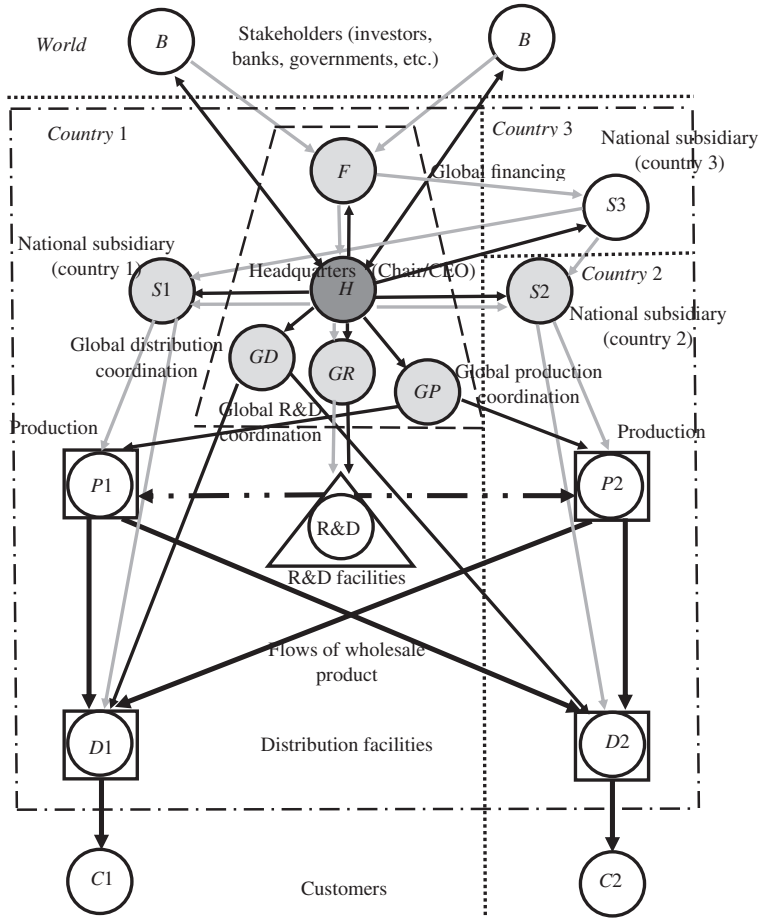

FIGURE 3 Schematic representation of MNE structure showing the role of national subsidiaries and finance. Square box: production or distribution facility; Triangle: R&D facility; Circle: representative individual decision-maker. Color of circle: dark gray: highest-ranked decision-maker (chairperson/CEO); light-gray: second-rank decision-maker (global coordinator, chief financial officer and subsidiary managers in countries 1 and 2); white: lowest-ranked decision-maker (facilities managers and manager of subsidiary in country 3). Thick black lines: flow of product or service that is ultimately sold to customers (including intra-firm exports). Thick black dash double-dot lines: flow of knowledge (shared as a "public good" between production facilities). Thin black continuous lines: flow of coordinating services; the direction of the arrow indicates the line of authority. Thin gray lines: flow of support services (including, where appropriate, financial services) from a remote location (this includes communication between the relevant parties too). Dashed black line: boundary of headquarters location (indicating co-located staff). Dash-dot black line: ownership boundary of the firm. *B*, representative stakeholder; *C*, customer; *D*, distribution; *F*, finance; *GD*, global distribution coordination; *GP*, global production coordination; *GR*, global R&D strategy-making; *H*, global headquarters; *P*, production; *R&D*, management of R&D facilities; *S*, national subsidiary

financing of the firm is instrumental in sustaining its core activities. The money raised from banks and the capital market is spent mainly on these core activities, apart from funding the operating costs of headquarters and the finance activity itself.

The banks, represented by *B* at the top of the figure, negotiate with the finance director *F*, who intermediates between them and headquarters *H*. Once negotiations have been completed,

however, the banks lend directly to *H*. The funds are then distributed to the two national subsidiaries, *S*1, *S*2, who in turn fund production and distribution activities in their respective countries. R&D is financed directly by *H* as an "overhead" activity.

A significant refinement of the analysis is the introduction of a third subsidiary, *S*3, located in a tax haven, country 3. In this country, the marginal corporation tax rate is significantly lower than in countries 1 and 2. The principal object of the subsidiary is tax avoidance (Cooper & Nguyen, 2020). The subsidiary supplies notional services, such as expensive internal loans or unnecessary internal insurance, to the production and distribution operations. These services are routed through the national subsidiaries *S*1, *S*2, as indicated by the thin gray lines in the figure. Charges for these services appropriate much of the operating profit from production and distribution, thereby reducing the profits of the national subsidiaries *S*1 and *S*2. This reduces reported profits in the high-tax countries, and generates substantial profits in the low-tax country 3. These profits are consolidated with the profits from *S*1 and *S*2 in the annual group accounts prepared by the finance director *F* and reported to the tax authorities in the headquarters country 1. If the tax authorities in country 1 treat the profits accruing in country 3 as tax paid, even though the rate of tax is lower, then the net tax burden on the MNE is substantially reduced. Shareholders benefit, jobs are created in country 3, and no one working for the firm elsewhere loses out; the only loser is the government of country 1 and its citizens, who would have benefited from the government spending that would have been possible had the tax been paid in full.

5.4 | Central services in general

Coordination of product flows and financial flows are by no means the only management services that are used within a firm. Most plants normally require access to HR services, computing services, facilities maintenance, and other specialized services. Some of these services feature more prominently in the international management literature than others. Market-facing services are general regarded as the most significant. These involve collecting information on external conditions in order to inform strategy at either local, national, or international level, for example, marketing, procurement, and management recruitment. Others simply support routine day-to-day operations, for example, computing services and facilities-management services.

All these services can, in principle, be contracted out to specialist suppliers, and this may indeed be appropriate in certain cases, for example, where there are substantial economies of scale. There are many services, however, such as those involving confidential information, that are unsuitable for subcontracting, and for these internal supply is essential.

It is possible that a firm could supply these services for itself, and sell excess supply to other firms. This would require other firms to contract out, however, and this is most unlikely. In practice, therefore, most internal services, however supplied, are never resold but are used exclusively with the firm.

Some internal services, such as finance, are supplied mainly to the headquarters of the firm, but most are supplied to individual plants, which are normally the main employers of labor and the major users of buildings and machinery. Some internal services need to be supplied locally, but others can be supplied remotely. In the digital age, for example, data processing can be remotely supplied, but building maintenance cannot. Some internal services may exhibit economies of scale, suggesting that if they can be remotely supplied then they should be concentrated

at a single location. This location could well be the headquarters, but that is not necessarily so. If communication costs are relatively high then the "center of gravity" of the plant locations may be chosen, while if relevant skills are scarce then access to specialist workers may be the paramount concern in the location of these internal services.

It is not only local plants whose internal services can be off-shored; it is headquarters too. For example, there are powerful incentives to off-shore certain financial operations, as indicated above. Headquarters services could be off-shored to existing plants, for example, when the skills required by the internal services are similar to those required by the local plants. For highly confidential services, however, headquarters may prefer the services to be locally supplied.

Figure 4 incorporates general management services into the activity structure portrayed in Figure 3. It focuses on HR services, which are shown near the top of the figure. *HR* advises the CEO at headquarters *H* on personnel issues (including the selection of the senior managers who serve on the board). *HR* is also in dialogue with the key stakeholders, including the banks that appear at the top of the figure.

The figure is quite complex. Once again, the principle of intermediation is applied, but now there are so many activities to be coordinated that the number of permutations is quite large. To simplify further, additional restrictions are introduced. It is assumed that the internal services used by individual plants are supplied either from the plant itself or from the national subsidiary, and that a national subsidiary is supplied with services either locally or from headquarters. Headquarters is supplied either locally or from the off-shore subsidiary *S*3. Where internal services are supplied locally to individual plants they are included, for simplicity. In the same category as labor and other local resources supplied to a plant for its principal production activity; these activities are represented by the boxes in the left- and right-hand margins of the figure.

A simple interpretation of the figure is offered in Figure 5. The figure shows eight main groups of individuals who are responsible for various aspects of coordination. Each of these groups has been abstracted from the network of linkages shown in Figure 4. In each group the highest-ranked (most senior) individual is represented by the darkest colored circle and the lowest-ranked (junior) individuals by white circles. The function of each group is to intermediate between specific activities carried on in specific facilities. These activities are managed by the lowest-ranked individuals. The lowest-ranked individuals do not negotiate directly with each other, except in the presence of, or under the scrutiny of, the senior individuals. The determination of individual rankings rests ultimately with the highest-ranked individual, who chairs the main board.

Both the structure of authority, and the location of the senior members, indicates a relatively hierarchical structure. This hierarchical structure is the consequence of the indirect communication between production plants and their overseas distribution facilities noted earlier. It would be possible to introduce a direct line of communication between the two, but to maintain the authority structure it would be necessary for this to be intermediated. Either the global production director or the global distribution director could take this responsibility; however, if they shared this responsibility they would have to negotiate with each other and this would create ambiguity in control.

5.5 | Coordination and communication

There are several trade-offs involved in optimizing internal structure. The most important trade-off is between directness of communication and ambiguity of control. The more

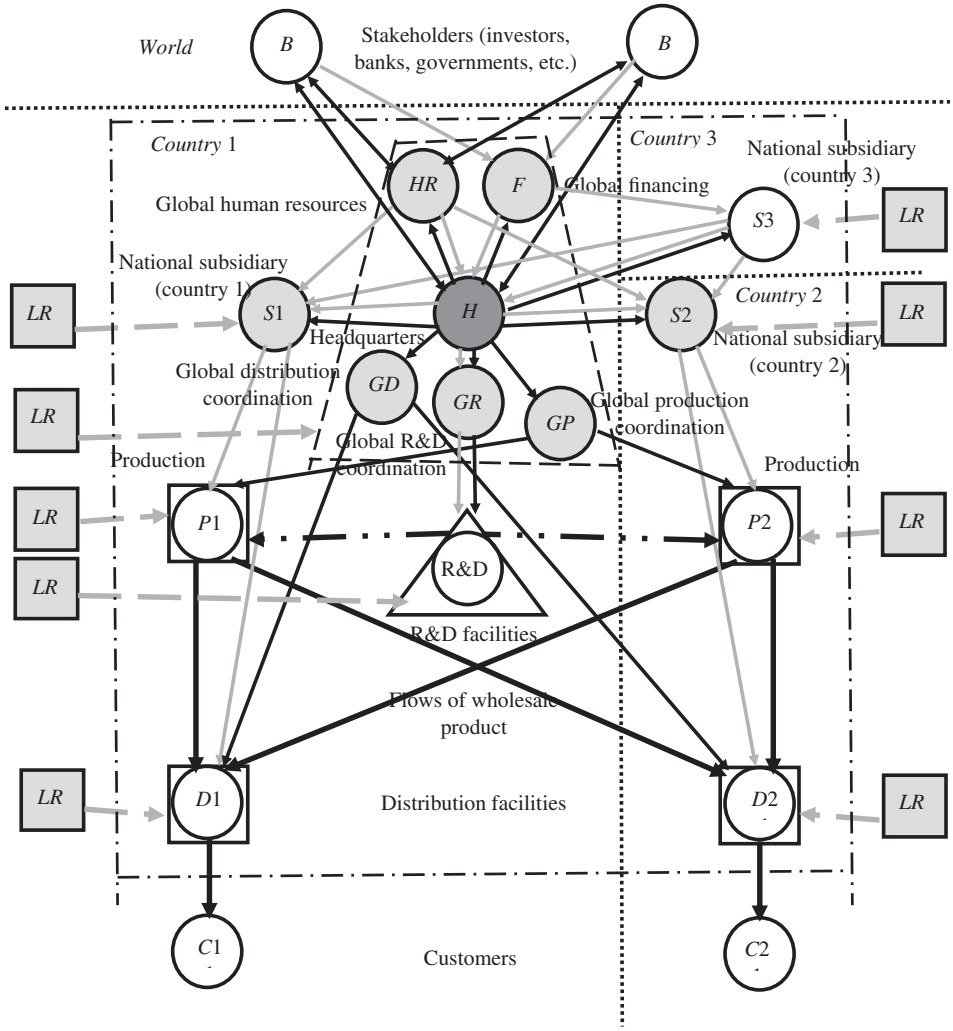

FIGURE 4 Schematic representation of MNE structure with a comprehensive view of management services. Square box: Physical resource; Color of box: white: production or distribution facility; light gray: local labor, buildings and infrastructure. Triangle: R&D facility; Circle: representative individual decision-maker. Color of circle: dark gray: highest-ranked decision maker (chairperson/CEO); light-gray: second-rank decision-maker (global coordinator, chief financial officer and subsidiary managers in countries 1 and 2); white: lowest-ranked decision-maker (facilities manager and manager of subsidiary in country 3). Thick black lines: flow of product or service that is ultimately sold to customers (including intra-firm exports). Thick black dash double-dot lines: flow of knowledge (shared as a "public good" between production facilities). Thin black continuous lines: flow of coordinating services; the direction of the arrow indicates the line of authority. Thin gray lines: flow of support services (including, where appropriate, financial services) from a remote location (including supporting communications). Dashed black line: boundary of headquarters location (indicating co-located staff). Dash-dot black line: ownership boundary of the firm. Dashed gray line: flow of local supplies of labor, building services, infrastructure services, and so on. *B*, representative stakeholder; *C*, customer; *D*, distribution; *F*, finance; *GD*, global distribution coordination; *GP*, global production coordination; *GR*, global R&D strategy-making; *H*, global headquarters; *HR*, human resources management; *LR*, local resources of labor, and so on; *P*, production; *R&D*, management of R&D facilities; *S*, national subsidiary (the subsidiary in country 3 serves no local market but provides off-shore services)

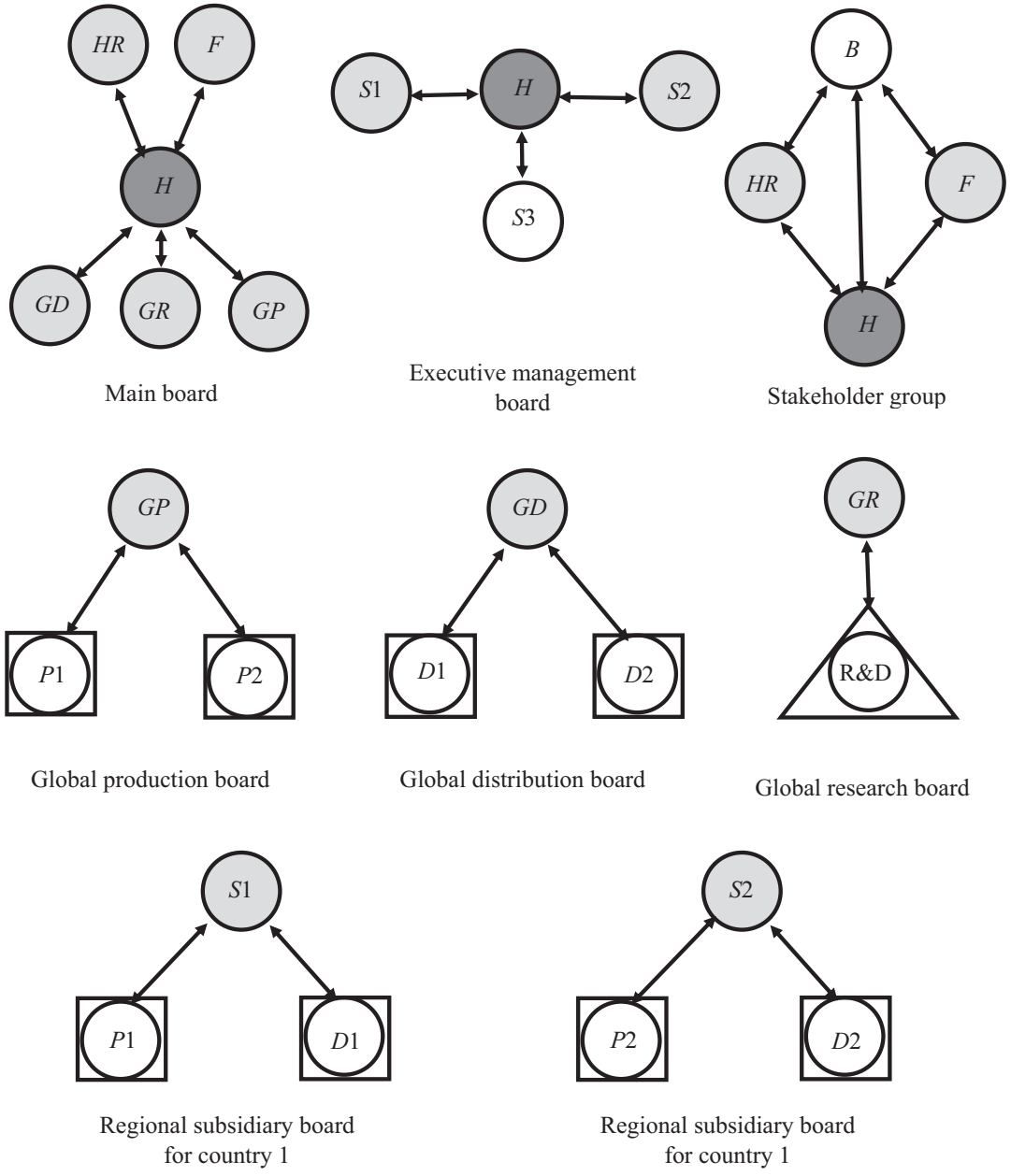

FIGURE 5 Key groups identified in Figure 4. The groups are derived from Figure 4. The relations between the members of each group have been simplified. Because the emphasis is on communication within the group the distinction between communications and the flow of services has been suppressed, and all communication is indicates by bi-directional lines

"vertical," "tall," or "hierarchical" the structure of communication, the more indirect is the communication between individual lower-ranked managers, but the more unambiguous are the lines of authority. Conversely, the more "horizontal," "flat," or "consultative" the structure, the more direct the communication, but the more ambiguous the lines of authority.

Table 1 shows the length of the most direct lines of communication between any given pair of managers in the structure portrayed in Figure 4. All the managerial roles identified in the figure are listed in the left-hand column, and the letters used to represent them appear in the column to the right. The number in each cell represents the number of links in the chain of communication between a pair of managers in given roles when they use the shortest line of communication between them. Since the number of linkages is independent of the direction of communication, it is only necessary to show the number of linkages for one direction of communication. To avoid duplication of information in the table, therefore, numbers appear only in the cells below the diagonal. The totals shown in the bottom line of the table are the total number of linkages required for a manager in a given role to communicate with managers in every other role. For each given role, the total number of linkages is calculated by summing both the numbers in the corresponding row and the numbers in the corresponding column.

The results reported in the table show that the highest-ranked managers, though "distant" from the lowest-ranked managers, nevertheless have reasonably good access to the whole of the organization because they can communicate downward through the hierarchy in any direction. By contrast, a low-ranked manager has a direct, if distant, connection to a top manager, but an exceptionally long connection to another low-ranked manager, particular one who operates a different type of facility in a different country; this only matters, however, if there is real need for communication between the two.

In a flatter and more consultative organization there would be many more linkages and so the average "distance" between any pair of managers would be much lower. Furthermore each manager, including the lowest-ranked managers, would be directly connected to a greater number of other managers. The difference in connectivity between lowest-ranked managers and highest-ranked managers would tend to be smaller, although the strength of this effect would depend on where exactly the additional linkages were introduced. The organization would also be robust to disruption, because alternative linkages would be available if any linkage were disrupted; indeed, in some cases the second-best line of communication could be almost as good as the first.

A taller and more hierarchical organization has fewer linkages, and therefore greater distance between managers, especially between managers at the same level of authority. With a limited number of linkages, it is also more vulnerable to disruption. If some line of authority is cut off then the best alternative channel of communication (if one exists) may be very indirect. Thus if a single senior manager resigns or falls ill, for example, the ensuing disruption may be considerable if no-one with similar expertise is available to replace them.

5.6 | Inter-industry comparisons

Different types of industry will have different configurations of plants and will therefore develop distinctive management structures of their own. In general, manufacturing firms will differ from service firms, high-technology firms will differ from low-technology firms, and firms that integrate backward into primary industries will differ from firms that do not. In particular, some firms may develop distinctive advantages in the coordination of internal activities. They may grow large because they are able to internalize more activities than less-advantaged firms which find it necessary to out-source activities that they lack the skills to manage.

More generally, the analysis resonates with earlier work in internalization theory which has, to some extent, been overlooked in recent literature—in particular the early contributions

TABLE 1 Lengths of the internal linkages shown in Figure 4

		H	*GP*	*GD*	*GR*	*F*	*HR*	*S1*	*S2*	*S3*	*P1*	*P2*	*D1*	*D2*	*R&D*
Headquarters	*H*														
Global production	*GP*	1													
Global distribution	*GD*	1	2												
Global research	*GR*	1	2	2											
Finance	*F*	1	2	2	2										
Human resources	*HR*	1	2	2	2	2									
Subsidiary 1	*S*1	1	2	2	2	2	2								
Subsidiary 2	*S*2	1	2	2	2	2	2	2							
Subsidiary 3	*S*3	1	2	2	2	2	2	2	2						
Production 1	*P*1	2	1	3	3	3	3	1	3	3					
Production 2	*P*2	2	1	3	3	3	3	3	1	3	2				
Distribution 1	*D*1	2	3	1	3	3	3	1	3	3	2	3			
Distribution 2	*D*2	2	3	1	3	3	3	3	1	3	3	2	2		
Research & development	*R&D*	2	3	3	1	3	3	3	3	3	4	4	4	4	
Total		16	23	23	27	27	27	23	23	27	29	29	29	29	39

Note: The number in each cell indicates the number of the linkages in the shortest chain connecting the activity in the given row to the activity in the given column (and vice versa). The table is based on Figure 5. It refers only to internal linkages; it excludes linkages to customers and stakeholders. The table is shown in lower-diagonal form because, if shown in full, the numbers in the cells above the diagonal would be mirror-images of those below the diagonal. The "totals" shown in the bottom row are the total number of linkages by which a given activity is connected to other activities in the system. The total in each column pertains to the activity indicated in the heading of the column. Because the numbers above the diagonal have been suppressed, the number of linkages used to make a given connection must be read off, where appropriate, from the relevant row as well as from the relevant column. *Comments*: The system portrayed in Figures 4 and 5 is relatively centralized. With 14 activities there are $(14 \times 13)/2 = 91$ potential linkages; this corresponds to the number of cells below the diagonal in the table. Yet there are only 17 direct linkages between any pair of activities; most linkages are indirect because they are intermediated by managers. The number of direct linkages is therefore parsimonious; this means that most linkages are indirect, and so the total number of linkages involved in connecting every activity to every other activity is very high (the total of the column totals is 342). There are few alternative routes of equal length; the main example involves connecting headquarters to production and distribution facilities either via the local subsidiary or via the global production or distribution directors, respectively. There are several "roundabout" alternatives, for example, production in one country can be connected to distribution in a foreign country, not only via a short route involving the two subsidiary headquarters, but via a longer route involving the global production director, global distribution director, and headquarters. If connectivity were to be increased, a useful shortcut would be to connect the global production director, global distribution director, and the global R&D director directly as well as via headquarters. As additional linkages are introduced into the management structure, the variation in the number of linkages relating to each activity (i.e., the variation in the column totals) reduces, because the maximum number of linkages for any activity shrinks sharply while the minimum number of linkages for any activity increases much less (if at all).

by Williamson (1975) and Hennart (1991). The diagrammatic analysis can be used to clarify some of the subtle philosophical points they make about internal and external markets and the internal governance mechanisms of the firm. In general, a deeper understanding of internal coordination will almost certainly bring to light additional firm-specific advantages based on specific management skills that are pertinent to specific types of industry. It will also enrich understanding of the nature and significance of internalization, which could lead to significant further developments of the theory.

6 | PERSONAL MOTIVATION: ECONOMICS AND PSYCHOLOGY OF TEAMS

A useful way of summarizing the preceding analysis is to say that management of an MNE can be analyzed as if the MNE were a team of teams. Each team has a leader, and the leader of a low-ranked team is typically an ordinary member of a higher-ranked team. In a strict hierarchy the lower-ranked team leader belongs to just a single higher-ranked team, but in a flatter and more consultative structure they may belong to several such teams. Higher-ranked teams are responsible mainly for the allocation of resources between the lower-ranked teams.

In the previous discussion, the plant was the smallest unit of analysis. It was effectively a "black box." Opening up the black box reveals more demands for coordination. A plant may contain multiple work teams, and within each team there will normally be a leader who coordinates the members' efforts. Hierarchies may therefore exist within individual plants; for example, the plant manager may chair a production board composed of work-group managers; thus, the plant itself becomes a team of teams.

A team perspective is useful because it indicates that a leader is more than just an authority. Each leader is also accountable for the performance of their team. They account to a higher authority, namely the leader of the team to which they, and other leaders of similar rank, belong.

A leader is therefore responsible for the actions of people other than themselves. The leader of the firm, namely the CEO is responsible to stakeholders external to the firm. Only an "ordinary worker," who takes orders but does not give them, is responsible simply for themselves.

Accountability raises a serious problem for management, because the leader of a team becomes responsible for the behavior of other members who may have objectives very different from their own. In principle a contract of employment resolves this problem because the employee (team member) agrees to follow their employer's instructions (as given by their leader), whether or not they agree with them themselves. In practice, however, such contracts can be difficult to enforce.

If the objectives of the leader and team member conflict then there is an incentive problem. The leader needs to understand the other person's objectives in order to determine the kind of reward they seek. They can then promise this reward in return for compliance. Compliance is checked by monitoring the employee, for example, by measuring their effort.

Monitoring performance can be difficult, however. Where interdependence within the team is high, lack of effort by a single worker can nullify the efforts of all the others, that is, the team is no stronger than its "weakest link" (Marschak & Radner, 1982). If the leader can only monitor the aggregate outcome then incentives will have to be based on overall team performance, which may make them relatively weak so far as any individual is concerned. However, if the

workers have "inside information" they may apply personal rewards and penalties amongst themselves.

Understanding other people's objectives can also be difficult. It is often assumed that employees are concerned mainly with bonuses, pay, and promotion, but nonpecuniary factors can be important too. These include self-respect, and peer respect from within the team or beyond.

Nonpecuniary incentives are potentially more powerful that pecuniary incentives because the worker essentially monitors and rewards themselves. The worker may regard their work as the fulfillment of an obligation: to society ("pride in the job"); to their employer (reciprocity or respect for authority); or to their colleagues ("solidarity"). The same attitudes can also be reversed, however: alienation from society, distrust of authority and contempt for colleagues can produce bad results (Casson, 1991).

The ideal solution is to align the objectives of the employee/ordinary team member with the objectives of the employer/team leader, and then leave the team member to monitor themselves. This can be achieved in three main ways: the employee can buy into the employer's objectives (e.g., as a partner in a co-operative firm); the employer can buy into the employee's objectives (e.g., corporate sponsorship of good causes), or the two can be combined. Given that the leader is ultimately responsible for the performance of their team, it is for the leader to decide which, if any, of these policies is pursued.

The problem with the first is that conflict may develop at the highest level between employee owners and non-employee owners, though a possible solution is to give the employees nonvoting shares. The problem with the second is that there may be differences in objectives between individual employees. Leaders can address this problem in the long run by recruiting only like-minded members to their team. This has the disadvantage, however, that by restricting the recruitment base, and encouraging "group think," it may reduce the diversity of knowledge and skill within the team.

7 | ALTERNATIVES TO THE MNE

In practice, there are many varieties of firm in an international business strategy system. An important role of internalization theory is to analyze how the structure of the firm adapts to the job that the firm needs to do. For most MNEs this job is to recognize and exploit external opportunities (e.g., technological innovation, product differentiation), and to anticipate and neutralize external threats (e.g., deter imitation, accommodate changes in consumer preferences). The firm must adapt its internal structure, as and when required, in order to facilitate effective response. It is widely recognized that firms require "dynamic capabilities" to adjust to changing circumstances (Teece, 2009), but only internalization theory explains in detail the precise adjustments required to achieve specific types of change.

There are many coordination possibilities in the international business strategy system. Joint ventures networks, international cartels, and international investment trusts are all potential alternatives to the MNE. Networks of international joint ventures are already common in many high-technology industries (pharmaceuticals, motor vehicles, etc.). International cartels were prominent in the inter-war period, when both trade barriers and political risks were high, and these conditions may return in response to political moves toward de-globalization. International investment trusts are created when investors acquire large stakes (usually in the names of holding companies) in a range of firms, with each stake sufficient to acquire a right of

nomination to the board of directors. They then coordinate the actions of their representative directors to orchestrate the actions of the firms, and thereby achieve outcomes that would often be illegal if implemented through a merger or a cartel.

Firms can also restructure their product or technology portfolios to their mutual advantage through simple trades. For example, an exchange of patents can allow independent firms to reinforce their individual monopolies of technologies in a particular sector of the economy. Diversified pharmaceutical firms, for example, can exchange their patents so that each acquires a monopoly of technologies in a particular field of medicine. Similarly, diversified fast-moving consumer goods firms can exchange brands in order to acquire a monopoly of leading brands in specific sectors, such as ice cream, detergents, and snack foods.

The analytical techniques developed in this article can also be applied to these alternative organizational forms. The management structures used to implement these "alternatives to the MNE" have been studied relatively little, and offer an exciting agenda for future international business strategy research.

8 | CONCLUSIONS

This article has examined the potential for integrating theories of international business strategy and international management. This is a broad and ambitious agenda and this article has examined only selected aspects of the topic. It has introduced diagrammatic techniques for analyzing the linkages between activities within an MNE. The diagrams examine how these activities can be coordinated through intermediaries. The intermediaries are managers who collect information from individual plants, supervise negotiations between plant managers, and if necessary impose decisions. These managers also need to coordinate their own decisions. This is the responsibility of senior managers (e.g., board members), who oversee negotiations between these managers and also manage relations with external stakeholders.

Managers rely on wide range of specialized support services which are supplied by teams led by other managers. Some of these teams may be co-located with the plants they serve, while others may be located at a distance and supply their services remotely. Some of these services may be supplied from locations where the firm would not normally produce, for example, tax havens. The location of support services may therefore influence the multinationality of the firm.

The analysis can be extended further by opening up some of the "black boxes," such as plants and service centers, and thereby disaggregating to a lower level. In principle, there is no reason why the analysis cannot drill right down to examine coordination between the individual members of work groups within a production plant. It is, in fact, at this level that many of the ethical concerns relating to modern MNEs are most intense.

The analysis above has drawn extensively on techniques of network analysis. Neither international management nor international business strategy has exploited the full potential of these techniques. International business strategy has used networks to analyze the flow of product and diffusion of knowledge, while international management has used them mainly to examine management structures and hierarchies of control. This article has integrated the two, and has shown that they are more powerful together than they are apart.

This integrated approach is an ideal framework with which to analyze the role of support services within the MNE. In many business schools, each support service is studied in a different department, or perhaps by a different group of scholars. Each group argues, quite correctly,

that the services they study are crucial to the performance of the firm. This fragmented approach does not, however, address the issue of how these support services interact with each other, and how location decisions relating to support services influence the multinationality of the firm. Bridging the gap between international management and international business strategy may also serve to bridge other "gaps" within international business strategy studies as a whole.

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